

Message Text

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ACTION AF-06

INFO OCT-01 EUR-12 IO-10 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 2597

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMEMBASSY GABORONE

AMCONSUL JOHANNESBURG

AMEMBASSY LONDON

AMCONSUL LOURENCO MARQUES

AMEMBASSY LUSAKA

AMEMBASSY MASERU

AMEMBASSY MBABANE

AMEMBASSY PARIS

US DEL MTN GENEVA 351

UNCLAS PRETORIA 3289

PARIS ALSO FOR OECD

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SUBJ: ANNUAL ECONOMIC REPORT OF SOUTH AFRICAN RESERVE BANK

REF: PRETORIA 3031

1. FOLLOWING ARE HIGHLIGHTS OF THE SOUTH AFRICAN RESERVE BANK (SARB)
ANNUAL ECONOMIC REPORT AND OF THE GOVERNOR'S ANNUAL ADDRESS.

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WM REAL GROSS DOMESTIC PRODUCT INCREASED 3 P/C IN YEAR ENDING JUNE 30,

D175. PREVIOUS YEAR RECORDED 5 1/2 P/C. (BANK TELLS US THAT PREVIOUSLY

REPORTED FIGURE OF SLIGHTLY OVER 7 P/C GROWTH IN REAL GDP IN CALENDAR 1974 IS STILL ACCURATE.) REAL GNP INCREASE IN 1974/1975 WAS 2 P/C, AGAINST 9 P/C IN 73/74.

3. REAL PRIVATE CONSUMPTION EXPENDITURE GREW 3 1/2 P/C IN YEAR ENDING JUNE 30, 1975. REAL GOVERNMENT CONSUMPTION EXPENDITURE ROSE 12 P/C, REAL GROSS FIXED INVESTMENT 1 P/C. TOTAL INVENTORIES ROSE BY R1,670 MILLION. (ONE RAND -\$1.40.)

4. INFLATION IS SLOWING DOWN. CONSUMER PRICE INDEX ROSE AT ANNUAL RATE OF 18.2 P/C IN THIRD QUARTER 1974, 13.8 P/C IN FOURTH QUARTER 74 AND FIRST QUARTER 75, 12.4 P/C IN SECOND QUARTER 75. WHOLESALE PRICE INCREASES SLOWING EVEN MORE, (DESPITE THESE ENCOURAGING SIGNS ON AUGUST 27 PRIME MINISTER MADE PUBLIC APPEAL FOR RESTRAINT IN WAGE DEMANDS, PRICE RISES, ETC.)

5. BALANCE OF PAYMENT CURRENT ACCOUNT DEFICIT WAS R1,507 MILLION IN YEAR TO JUNE 30, R1,300M (SEASONALLY ADJUSTED ANNUAL RATE) IN LAST HALF OF 1974, R1,710M IN FIRST HALF OF 1975. BANK ATTRIBUTES DETERIORATION IN CURRENT ACCOUNT TO DECLINE IN VALUE OF GOLD OUTPUT AND INCREASE IN SERVICE PAYMENTS. CURRENT ACCOUNT DEFICIT STILL BEING OFFSET BY CAPITAL FLOWS (R1,499 M IN YEAR TO JUNE 30.)

6. MONEY AND NEAR-MONEY INCREASED 19 P/C IN YEAR TO JUNE 30, SAME AS INCREASE IN PREVIOUS YEAR.

7. GOVERNMENT SPENDING WAS R6,329 MILLION IN YEAR TO JUNE 30, UP FROM R4,838 M AND R3,769 M IN PREVIOUS TWO YEARS. RECEIPTS WERE R5,141 M, R4,381 M AND R3,342 M. BUDGET DEFICIT WAS THUS R1,188 M IN YEAR TO JUNE 30, 1975, R456 M IN YEAR BEFORE, AND R426 M IN 1972/73.

8. YEAR TO JUNE 30 SAW LARGE FLUCTUATIONS IN PRIVATE SHORT-TERM CAPITAL FLOWS ASSOCIATED WITH EXPECTATION OF EXCHANGE RATE CHANGES. POLICY MEASURES TAKEN AUGUST 11 (REFTEL) EXPECTED TO LIMIT EFFECTS OF SPECULATION AGAINST THE RAND.

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OM ON PRESENT SITUATION, GOVERNOR SAYS ECONOMY HAS BEEN IN DOWNWARD PHASE (I.E. GROWTH LESS THAN LONG-TERM TREND) FOR ABOUT A YEAR. DIFFICULTIES NOW AFFECTING ECONOMY ARE CONTINUED RECESSION IN US AND EUROPE, CONTINUED INFLATION, AND BALANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT, WHICH "TURNED OUT TO BE GREATER THAN HAD BEEN EXPECTED." CURRENT SARB POLICY STRESSES STRENGTHENING BALANCE OF PAYMENTS AND FIGHTING INFLATION.

10. GOVERNOR SAID ANTI-INFLATION EFFORTS OF GOVERNMENT AND PRIVATE SECTOR CAN SUCCEED ONLY IF EXCESSIVE INCREASES IN MONEY SUPPLY AND BANK CREDIT CAN BE AVOIDED. HE PRAISED GOVERNMENT FOR ITS EFFORTS TO ECONOMIZE AND TO PERSUADE PROVINCIAL AND LOCAL GOVERNMENTS AND PUBLIC BODIES TO DO SAME, BUT POINTED TO THE 12 P/C INCREASE IN REAL GOVERNMENT CONSUMPTION EXPENDITURES AS MAJOR SOURCE OF INFLATION. HE ALSO STATED APPROVAL OF NEW LONG-TERM (25 YEARS) GOVERNMENT BOND ISSUE AT 10 P/C, HIGHEST RATE EVER OFFERED. FINALLY, HE MADE STRONG CALL FOR SETTING SPENDING PRIORITIES FOR PUBLIC SECTOR AND URGED COST-BENEFIT STUDIES OF LARGE CAPITAL PROJECT, WHICH WILL MAKE GREAT DEMANDS ON AVAILABLE RESOURCES IN NEXT FEW YEARS.

11. COMMENT. DETERIORATION IN CURRENT ACCOUNT OF BALANCE OF PAYMENTS SEEMS SERIOUS, PARTICULARLY SINCE ECONOMY HAS BEEN SLOWING DOWN FOR THE PAST YEAR AND CURRENT ACCOUNT SHOULD BE IMPROVING 12 MONTHS AFTER SLOWDOWN BEGAN, CURRENT DEFICIT ANNUAL RATE OF R1,710 M IN FIRST HALF OF THIS YEAR IS WELL ABOVE EXPECTATIONS AND MAY BE GREATER CAUSE OF CONCERN THAN IS EVIDENT FROM GOVERNOR'S SPEECH. STAGNANT EXPORTS, GROWING IMPORTS, SLIGHTLY WEAKENING GOLD PRICE ALL CONTRIBUTE TO CURRENT ACCOUNT DEFICIT AND TO NEED TO RESTRAIN INTERNAL DEMAND AND ENCOURAGE BORROWING ABROAD, GOVERNOR'S CALL FOR SETTING PRIORITIES FOR MAJOR CAPITAL PROJECTS CALLS ATTENTION TO PROBLEM MUCH DISCUSSED IN FINANCIAL PRESS IN RECENT MONTHS- THAT OF UNDERTAKING MORE MAJOR PROJECTS THAN CAN BE FINANCED BY SAVINGS AND PROBABLE LEVEL OF FOREIGN LOANS.
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